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Overview

Introduction

The purpose of this topic is to provide guidance on the proper categorization of fixed assets for input into the Fixed Asset Accounting and Control System (FAACS). Once an asset has been classified as either capitalized or controlled (see CAPP Topic 30305, *Capitalized or Controlled Assets*) it is important that it be further defined into its proper detailed category.

Although this requirement applies to both capitalized and controlled assets, it is primarily for capitalized assets to ensure compliance with generally accepted accounting principles (GAAP) when preparing agency financial statements and the Comprehensive Annual Financial report (CAFR). The proper category is also important in applying appropriate depreciation rates based on useful life in order to properly report net asset values, where required, and recover indirect cost.

Policy

Fixed Assets Defined

Fixed assets are defined by five major asset categories:

- Land
- Buildings
- *Infrastructure (formerly Improvements Other Than Buildings*) excludes highways, bridges and other infrastructure maintained by the Virginia Department of Transportation (VDOT) or by local governments
- Equipment (includes furniture, fixtures, books, and livestock), and
- Construction in Progress.

GASB 34 reporting requires recognition of works of art, historic treasures, and library books. Currently, these items fit into the above-referenced categories.

These are the major asset categories utilized for financial reporting by the Commonwealth of Virginia and its individual State agencies.

Procedures

Land

Land is capitalized; however, it is considered to be an inexhaustible asset (with infinite life) and therefore is not depreciated.

The cost of land should include, in addition to the acquisition, ancillary costs as

- legal and title fees,
- unpaid taxes assumed,
- surveying and recording fees,
- appraisal and negotiation fees,
- easements,
- damage payments,
- site preparation costs (clearing, filling, and leveling) and
- demolition of unwanted structures.

Improvements that produce permanent benefits to the land, such as costs for fill and grading that ready the land for erection of a structure, or landscaping, are considered inexhaustible. These are capitalizable, but not depreciable.

The cost of land does **not** include expenditures in connection with land improvements that are considered exhaustible (that deteriorate with use or passage of time) or are part of an infrastructure asset such as

- paving,
- parking lots, and
- fencing.

These costs are set up in a separate asset category, *"Infrastructure*," and are depreciated. Unlike land, these items have finite lives and are depreciable.

Tract Identification Number

To control and record land data, the State has instituted a unique **Tract Identification Number** assigned to each tract of land within the State's inventory by the Department of General Services (DGS), Division of Engineering and Buildings, Bureau of Real Property Management, and maintained by DGS in the Real Property Management System. A tract is defined as any parcel or group of contiguous parcels of State-owned land under the control of, or occupied by, an agency, department or institution of the Commonwealth in support of programs of the agency, department or institution.

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Procedures, Continued

Buildings

The cost of buildings should include the purchase or construction cost, professional fees for architects, attorneys, appraisers or financial advisors, and any other expenditure necessary to put a building or structure within its intended state of operations. The cost also includes improvements to buildings. The main criteria for capitalizing building improvements is whether the expenditures significantly extend the useful life or significantly enhance the value of the individual building. Expenditures not meeting these criteria should be expensed

Use of Component ID Fields for Buildings

Older state buildings may generally be used for their intended purposes as long as they are properly maintained. Often these buildings are fully depreciated. Sometimes major building renovations or other improvements are undertaken to these buildings which are capitalized. To ensure that the renovation is properly depreciated, a separate record is set up in FAACS for the renovation, usually with a FAACS ID that is similar to that of the original building. The key field information (agency number, asset category and FAACS ID) for the original building should be entered in to the component ID fields in the renovation record when it is created. This provides a link between the two records that pertains to the same asset. Refer to CAPP Topic 30405, *Additions, Renovations and Repairs*.

Building Identification Number

To control and record building data, the State has instituted a unique **Building Identification Number**, which is assigned to each building within the State's inventory by the Department of General Services, Division of Engineering and Buildings, Bureau of Real Property Management, and maintained by them in the Real Property Management System. Leased buildings are given separate, unique identification numbers.

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Procedures, Continued

Infrastructure

Infrastructure (formerly Improvements Other Than Buildings) is a category that is primarily composed of what is generally considered to be "Infrastructure." GASB 34 Reporting requires recognition of infrastructure.

Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and that normally are stationary in nature. Examples of infrastructure assets include

- roads,
- bridges,
- tunnels,
- drainage systems,
- water and sewer systems,
- dams,
- parking lots, and
- street lighting systems.

Buildings, except those that are an ancillary part of a network of infrastructure assets, such as water pumping buildings associated with water systems, should not be considered infrastructure assets but should be classified as buildings.

Maintenance to an infrastructure asset that does not extend the asset's useful life or expand its capacity should be expensed, (not capitalized). On the other hand, costs incurred that do extend the asset's useful life or expand its capacity should be capitalized.

Infrastructure assets are depreciable.

The cost of improvements other than buildings is total acquisition or construction cost. Items include agency maintained infrastructure, such as roads, bridges, curbs, surface gutters, streets, sidewalks, drainage systems, parking lots, lighting systems and similar assets which, while not identifiable to any particular structure, nevertheless, have a quantifiable value to the agency.

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Procedures, Continued

Infrastructure continued

Examples of "Infrastructure" are listed below along with additional descriptive information that would normally be entered in the asset record.

Paving: Include total dimensions of the site and qualitative information such as the existence of related earth berms and parking lot striping.

Fencing: Total linear feet, including gates, etc. List by type.

Concrete Work: Sidewalks, flatwork, etc. List of total areas of various types. List curbs separately.

Misc. Structures: Small structures not listed by separate location such as sheds, sign posts, bleachers, etc. List individually without regard to component breakdown.

Plumbing: List as total plumbing for the site, including drain irrigation, drinking fountains, hose bibbs, and on-site sewer.

Streets, road and bridges: Include only those streets, roads and bridges that are maintained by the agency, and not any that are maintained by VDOT or by a city, town or local government (see *Streets and Roads* below).

Electrical: List area lighting separately from miscellaneous and electrical services.

Streets and Roads

When public streets and roads cross agency property, agencies will determine which portions of the roads and streets, if any, to include in FAACS based on who provides for maintenance. If VDOT (or a locality) provides maintenance, the street or road will not be included in FAACS. If the agency is responsible for maintaining the improvement, it will be included in FAACS in this category.

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Procedures, Continued

Equipment

Determine whether an item is a 1) separate piece of equipment having its own recorded cost and description, or 2) component and included as part of the cost and description of the overall asset. The majority of items are usually separate pieces of equipment.

Component Cost

A component part is that part of a unit of equipment that cannot be used independently of the remaining piece of equipment or is physically connected to the major asset. This definition applies even though the component part may meet the capitalization criteria by itself.

Example

A personal computer (PC) consists of a Central Processing Unit (CPU), monitor, and keyboard. This is considered to be one unit consisting of three parts, none of which can be used independently. Therefore, the total cost of the PC should be included in FAACS with a tag attached to the CPU and the asset description showing a PC consisting of a CPU, monitor, and keyboard. Under normal conditions, if one of the pieces had to be replaced, it would either be covered under a maintenance contract and no cost would be incurred, or the replacement piece would be purchased and the change would be considered an expense and not capitalized.

Component Cost Example 1

Certain types of equipment may be used with a large number of other types of equipment. For example, a telephoto camera lens may be used on any of a number of cameras separately inventoried and tagged by the agency. ADP equipment is another area in which there would be equipment components, such as a printer connected to a mainframe.

The key difference here is that these items can operate on many different pieces of equipment, and the equipment to which they are attached can operate independent of the component (e.g., the camera can operate without the telephoto lens and the mainframe can operate without the printer). Therefore, the item is not a constituent element (or component) of the system. It is a separate piece of equipment. If the item meets the capitalization criteria as an individual item, it should be separately recorded and tagged as a fixed asset equipment item.

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Procedures, Continued

Component Cost Example 2

Another example would be panels associated with providing an open office workstation. If fifteen panels were required to create an office area, and the aggregate cost met the capitalization criteria, but the individual cost per panel did not, the panel item(s) would not be capitalized. This is because the per-unit cost must be considered when this is the normal billing procedure. "An office" consisting of 15 panels is not being purchased. Instead, 15 panels are being purchased to build an office. If the individual cost of one panel meets the capitalization criteria, then 15 distinct assets would be set up and **not** one asset consisting of 15 panels.

Library books at institutions of higher education are normally individually categorized at the institution and, therefore, need only be entered at the summary level in FAACS. Also, State-owned scientific and other research livestock which meet the capitalization criteria should be included in the equipment major asset category.

Construction-in-Progress (Summary Maintenance)

The costs included in Construction-in-Progress are the total project-to-date expenditures per CARS or local ledger system, together with the related accounts payable, insurance premiums, interest and other related costs.

Agencies should use the following guidelines to determine if costs associated with capital projects are capital expenditures versus current period expenses and whether the project should be recorded in the Construction-in-Progress account in FAACS at year end.

- If the cost incurred increases the future economic benefits, it is a capital expenditure. Future economic benefits are increased by:
  - Extending the life of the asset
  - Improving productivity, and
  - Improving the quality of service.
- If the cost incurred was to maintain the asset, it is a current period expense.
- Review all costs associated with capital projects appropriations to determine if the project should be capitalized.

Determine if the project meets capitalization requirements. See CAPP Topic 30305, *Capitalized or Controlled Assets*.

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Procedures, Continued

Construction-in-Progress continued

- Ensure project and related expenditures fall into appropriate phase in the life of the asset.
  - Planning
  - Acquisition
  - Construction
  - Improvement
  - Renovation
  - Repair
  - Replacement
  - Relocation, and
  - Demolition.

Leasehold Improvements

Leasehold improvements to assets leased to the Commonwealth should be identified through the State nomenclature codes and capitalized under the appropriate major asset category.

Works of Art and Historic Treasures

Works of art, historic treasures and similar assets should be capitalized at their historic cost or fair value at the date of donation. Capitalization is encouraged but not required for collections of works of art/historic treasures that meet the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain,
- the collection is protected, kept unencumbered, cared for and preserved; and
- the collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

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Procedures, Continued

Works of Art and Historic Treasures continued

Capitalized collections of works of art/historic treasures are generally considered to be exhaustible, that is useful life of the assets is diminished by display or educational research applications. These should be depreciated over the estimated useful life. On the other hand, if an item or collection is considered to be inexhaustible, depreciation is not required.

Footnotes to the CAFR should provide detailed information about capital assets reported in the statements. The footnotes should also contain information on non-capitalized collections of works of art/historic treasures. Included should be a description of the collection and reasons why it is not capitalized.

Library Books and Nomenclature Codes

Library books having a useful life of greater than one year are capital assets and are depreciable. Because most library collections consist of a large number of books with modest values, group or composite depreciation methods may be appropriate.

Assuming that the total book value of an agency's collection of library books is equal to or greater than $5,000, the books should be included on FAACS. An alternative method may be used to ensure that the value of the books is included in the Comprehensive Annual Report (CAFR) of the Commonwealth.

One way to deal with library books is to make an annual group entry for the fiscal year's purchases of books. The group could be assigned a number indicating the asset type and FY of purchase.

Nomenclature Code 08400009200, *Books, Library* having a 10-year useful life is available for use for library books. If this code were used, each FY's group entry would then fully depreciate over a ten-year period. Ten years is generally recommended by the APA for most agencies having library books. Also available is nomenclature code 08400009900 for books that have a 5-year useful life if this is more appropriate for the agency.

Internal Control

General

Each agency and institution should implement cost beneficial internal control procedures to ensure that:

- Assets are properly categorized into the prescribed major asset categories;
- All expenditures are properly recorded in CARS to ensure completeness of data for review and evaluation;
- All asset expenditures are recorded in a timely and accurate manner and supported by detail documentation;
- All assets are further categorized, as appropriate, into more detailed categories necessary for various programmatic cost recoveries; and
- Appropriate detail is maintained to reconcile data in FAACS with data maintained in the Real Property Management System (RPMS) maintained by the Bureau of Real Property Management (BRPM).

Records Retention

General

Fiscal records related to managing fixed assets should be retained for a period of 2 years plus current fiscal year, or until audited, whichever is greater. However, for pending, ongoing, or unresolved litigation, audits or claims, retain documentation until completion, resolution, or negotiation of settlements.

Destruction of records must be in accordance with policies and procedures of the Records Management Section, The Library of Virginia.

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Subject Cross References

References

CAPP Topic No. 30305—*Capitalized or Controlled Assets*
CAPP Topic No. 30405—*Additions, Renovations and Repairs*
CAPP Topic No. 70325—*Data Entry*